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# 2024 Inspection Macias Gini & O'Connell LLP

(Headquartered in Los Angeles, California)

July 24, 2025

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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## TABLE OF CONTENTS

|   |     |
|---|-----|
| 2024 Inspection.....  | 2   |
| Overview of the 2024 Inspection and Historical Data by Inspection Year .....    | 3   |
| Part I: Inspection Observations.....  | 5   |
| Part I.A: Audits with Unsupported Opinions .....                                | 6   |
| Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules ..... | 8   |
| Part I.C: Independence.....   | 10  |
| Part II: Observations Related to Quality Control .....                          | 11  |
| Appendix A: Firm’s Response to the Draft Inspection Report.....                 | A-1 |

## 2024 INSPECTION

In the 2024 inspection of Macias Gini & O'Connell LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review two audits of issuers with fiscal years ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

### 2024 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work or of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

# OVERVIEW OF THE 2024 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2024 inspection as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

## Firm Data and Audits Selected for Review

|   | 2024 | 2022 |
|---|------|------|
| <b>Firm data</b>  |      |      |
| <b>Total issuer audit clients in which the firm was the principal auditor</b>                         | 18   | 20   |
| <b>Total engagement partners on issuer audit work<sup>1</sup></b>                                     | 7    | 7    |
| <b>Audits reviewed</b>  |      |      |
| <b>Total audits reviewed</b>  | 2    | 2    |
| <b>Audits in which the firm was the principal auditor</b>   | 2    | 2    |
| <b>Integrated audits of financial statements and internal control over financial reporting (ICFR)</b> | 1    | 1    |
| <b>Audits with Part I.A deficiencies</b>  | 2    | 2    |
| <b>Percentage of audits with Part I.A deficiencies</b>  | 100% | 100% |

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current

<sup>1</sup> The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer’s public disclosures. We do not have direct access to the issuer’s management, underlying books and records, and other information.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2024 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer’s financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

| 2024                           |                 | 2022                         |                 |
|--------------------------------|-----------------|------------------------------|-----------------|
| Audit area                     | Audits reviewed | Audit area                   | Audits reviewed |
| Revenue and related accounts   | 2               | Revenue and related accounts | 2               |
| Cash and cash equivalents      | 1               | Business combinations        | 1               |
| Goodwill and intangible assets | 1               | Leases                       | 1               |
| Going concern                  | 1               |                              |                 |

## PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

### Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

### Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

## Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

## Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

# PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

## Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

## Audits with Multiple Deficiencies

### Issuer A - Materials

#### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Goodwill**, **Going Concern**, and **Revenue and Accounts Receivable**. The firm's post-issuance monitoring program had inspected this audit and reviewed these areas but did not identify the deficiencies below.

#### Description of the deficiencies identified

With respect to **Goodwill**, for which the firm identified a significant risk:

The firm selected for testing a control that consisted of a review of impairment indicators for goodwill. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm did not identify and test any controls over the issuer's identification of reporting units in accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. (AS 2201.39)

The issuer engaged a valuation specialist to perform its annual goodwill impairment analysis. The following deficiencies were identified:

- The firm did not perform any procedures to evaluate the relevance and reliability of certain data from external sources used by the company's specialist to develop a significant assumption. (AS 1105.A8a)
- The firm did not perform procedures to evaluate the reasonableness of certain significant assumptions developed by the company's specialist, beyond inquiry of the company's specialist. (AS 1105.A8b)
- The firm did not perform procedures to evaluate the reasonableness of another significant assumption developed by the company's specialist, beyond performing a sensitivity analysis. (AS 1105.A8b)

The firm did not sufficiently evaluate whether the method used by the issuer to develop the fair value of its reporting units was in conformity with FASB ASC Topic 350, because the firm did not perform procedures to evaluate the appropriateness of the issuer's identification of its reporting units. (AS 2501.10)

The firm did not perform procedures, beyond reviewing the issuer's fourth quarter triggering event assessment, to evaluate whether a quantitative assessment was required during the fourth quarter, including consideration of contrary evidence included in the firm's audit work papers. (AS 2301.08 and .11; AS 2810.03)

With respect to **Going Concern**, for which the firm identified a significant risk:

The firm selected for testing a control that consisted of management's review of the issuer's ability to continue as a going concern for a reasonable period of time. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

During the year under audit, the firm identified conditions and events that caused it to believe there could be substantial doubt about the issuer's ability to continue as a going concern for a reasonable period of time and concluded that the substantial doubt was alleviated. The firm did not sufficiently evaluate management's plans as disclosed in the footnotes, because it did not (1) assess the likelihood that the issuer could obtain additional funding, beyond inquiries of management and review of historical funding, and (2) sufficiently test the prospective financial information which was significant to

overcoming the adverse conditions and events, including consideration of contrary evidence included in the firm's audit work papers. (AS 2415.03, .08, and .09; AS 2810.03)

With respect to **Revenue and Accounts Receivable**, for which the firm identified a fraud risk:

The firm selected for testing certain controls over the reconciliation and/or review of revenue and accounts receivable. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

## Issuer B – Health Care

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Cash and Cash Equivalents**.

### Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm did not perform any procedures to test the relevance and reliability of certain data obtained from an external vendor used in its substantive testing of revenue. (AS 1105.04 and .06)

With respect to **Cash and Cash Equivalents**, for which the firm identified a fraud risk:

The firm did not perform any procedures to test the existence of certain cash balances. (AS 2301.08 and .13)

## Audits with a Single Deficiency

None

## PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of two audits reviewed, the firm did not communicate to the audit committee all of the significant risks identified through its risk assessment procedures. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of two audits reviewed, the firm did not make a required communication to the audit committee related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of two audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In one audit reviewed, the engagement team did not take into account certain required factors in determining whether or not certain matters were critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In one audit reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

## PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that the firm brought to our attention, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

### PCAOB-Identified

We did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

### Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, 58 instances across 32 issuers,<sup>2</sup> in which the firm appeared to have impaired its independence because it may not have complied with Rule 2-01(b) of Regulation S-X related to maintaining independence.

While we have not evaluated the underlying reasons for the instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including any associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

The instances of potential non-compliance related to indemnification clauses:

The firm reported 58 instances of potential non-compliance regarding indemnification clauses that appear to be inconsistent with the general standard of independence set out in Rule 2-01(b) of Regulation S-X. These instances related to the firm including clauses in letters with issuer audit clients that may have resulted in the issuers agreeing to indemnify the firm with respect to certain liabilities for the audits.

The firm has reported to us that it has evaluated these instances of potential non-compliance and determined in all instances that its objectivity and impartiality were not impaired. The firm also reported to us that it communicated these instances to the issuers' audit committees as required by PCAOB Rule 3526.

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<sup>2</sup> The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

## PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

## APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

July 7, 2025

Ms. Christine Gunia, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K. Street, N.W.  
Washington, DC, 20006

RE: Response to Part I of the Draft Report on the 2024 Inspection of Macias Gini & O'Connell LLP  
(MGO)(324)

Dear Ms. Gunia:

On behalf of Macias Gini & O'Connell LLP, we appreciate the opportunity to respond to Part I of the Public Company Accounting Oversight Board ("PCAOB" or the "Board") Draft Report on the 2024 Inspection of Macias Gini & O'Connell LLP (the "Report"). The Board's inspection process plays an integral role in enhancing audit quality. We continue to support the PCAOB's goal of improving audit quality in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

We have evaluated each of the matters described in Part I of the Draft Report and are pleased that the PCAOB's inspection process aligns with our internal focus on maintaining a robust quality management system framework. We value the insights gained through this collaborative process and will use them to further strengthen our commitment to audit quality.

We remain committed in making audit quality our top priority. The PCAOB's inspection process assists us in improving our audit performance and our underlying quality control systems. We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Respectfully submitted,



Macias Gini & O'Connell LLP (324)

